Harry Gwala District Municipality

Annual Financial Statements
for the year ended 30 June 2015

GENERAL INFORMATION

MEMBERS OF THE COUNCIL	M NDOBE	MAYOR
	NH DUMA	DEPUTY MAYOR
	GP NZIMANDE	SPEAKER
	SB BHENGU	MEMBER OF THE EXECUTIVE COMMITTEE
	KS MADLALA	MEMBER OF THE EXECUTIVE COMMITTEE
	CB KUNENE	MEMBER OF THE EXECUTIVE COMMITTEE
	NB MNGADI	MEMBER
	ZS NYIDE	MEMBER
	VW ZAZA	MEMBER
	VP MAJOZI	MEMBER
	JS MSIYA	MEMBER
	MW TSHIBASE	MEMBER
	V MHATU	MEMBER
	ME MKHIZE	MEMBER
	M NONDABULA	MEMBER
	SD RADEBE	MEMBER
	XR TSHAZI	MEMBER
	SJ BHENGU	MEMBER
	SS MAVUMA	MEMBER
	B THABETHE	MEMBER
	AT SONDZABA	MEMBER
	CM NGCOBO	MEMBER
	BW DLAMINI	MEMBER
	PB KLEINBOOI	MEMBER
MUNICIPAL MANAGER	MRS AN DLAMINI	
CHIEF FINANCIAL OFFICER	MR M MKATU	
GRADING OF LOCAL AUTHORITY	GRADE 4	
AUDITORS	AUDITOR-GENERAL SOUTH AFRICA	
BANKERS	FIRST NATIONAL BANK	
PHYSICAL ADDRESS	40 MAIN STREET IXOPO 3276	
POSTAL ADDRESS	PRIVATE BAG X501 IXOPO 3276	
LEGAL FORM OF ENTITY	DISTRICT MUNICIPALITY	
TELEPHONE NUMBER	039 - 834 8700	
FAX NUMBER	039 - 834 2258	

INDEX

The reports and statements set out below comprise the annual financial statements presented to the Council:

INDEX	PAGE
Approval of Financial Statements	3
Statement of Financial Position	4
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	7
Appropriation Statement	8 - 11
Accounting Policies	12 - 29
Notes to the Annual Financial Statements	30 - 63

ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out in pages 5 to 63 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 36 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mrs AN Dlamini
Municipal Manager

31 August 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	30 June 2015	30 June 2014
Assets			
Current Assets			
Inventories	2	268 684	268 684
Receivables from non-exchange transactions	3	107 891 493	48 343 800
VAT receivable	4	11 902 540	5 794 347
Trade and other receivables from exchange transactions	5	37 499 656	6 923 235
Cash and cash equivalents	6	25 878 805	29 474 485
		183 441 178	**90 804 551**
Non-Current Assets			
Property, plant and equipment	7	1 472 253 144	1 279 316 737
Intangible assets	8	477 665	832 965
Investment in entity	9	100	100
		1 472 730 909	**1 280 149 802**
Total Assets		**1 656 172 087**	**1 370 954 353**
Liabilities			
Current Liabilities			
Borrowings	10	3 265 828	3 415 335
Finance lease liability	11	3 471 758	2 923 407
Trade and other payables from exchange transactions	12	152 205 738	90 685 272
Trade and other payables from non- exchange transactions	13	2 499 235	2 499 235
Consumer deposits	14	1 257 312	1 113 719
Unspent conditional grants and receipts	15	11 092 768	19 772 171
Provisions	16	359 524	206 505
		174 152 163	**120 615 644**
Non-Current Liabilities			
Borrowings	10	18 683 390	22 063 772
Finance lease liability	11	2 844 776	5 129 664
Provisions	16	14 282 954	13 927 928
		35 811 120	**41 121 364**
Total Liabilities		**209 963 283**	**161 737 008**
NET ASSETS		**1 446 208 804**	**1 209 217 345**
Accumulated surplus		1 446 208 804	1 209 217 345

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	30 June 2015	30 June 2014
Revenue			
Revenue from exchange transactions			
Service charges	17	55 400 032	48 904 504
Interest on oustanding debtors		7 446 155	5 637 940
Other income	18	1 677 783	1 858 942
Interest received - Investments	19	3 476 098	3 343 503
Total revenue from exchange transactions		**68 000 068**	**59 744 889**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	20	562 577 375	479 082 457
Total revenue	21	**630 577 443**	**538 827 346**
Expenditure			
Bulk purchases	22	8 941 347	9 487 077
Collection costs	23	1 918 923	-
Community participation	24	4 269 914	4 228 210
Contracted services	25	40 493 876	23 622 429
Contribution to bad debt provision	26	2 132 917	23 205 844
Depreciation and amortisation	27	39 323 797	37 050 412
Employee related costs	28	104 261 737	99 942 600
Finance costs	29	3 648 355	3 510 373
General Expenses	30	82 419 024	65 193 741
Grants and subsidies paid	31	22 426 825	14 808 198
Impairment of assets	32	406 913	3 671 661
Loss on disposal of assets	33	10 737 380	25 115 763
Operating grant expenditure	34	39 954 116	61 070 771
Provision for leave pay reserve	35	824 076	1 817 972
Remuneration of councillors	36	5 689 125	5 249 110
Repairs and maintenance	37	22 131 829	23 474 334
Total expenditure		**389 580 154**	**401 448 495**
Operating surplus		**240 997 289**	**137 378 851**
Surplus for the year		**240 997 289**	**137 378 851**

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 040 222 654	1 040 222 654
Adjustments		
Correction of prior year errors	31 615 840	31 615 840
Balance at 01 July 2013 as restated*	**1 071 838 494**	**1 071 838 494**
Changes in net assets		
Surplus for the year	137 378 851	137 378 851
Total changes	137 378 851	137 378 851
Balance at 01 July 2014	**1 209 217 334**	**1 209 217 334**
Changes in net assets		
Correction of prior year errors	(4 005 819)	(4 005 819)
Net income (losses) recognised directly in net assets	(4 005 819)	(4 005 819)
Surplus for the year	240 997 289	240 997 289
Total recognised income and expenses for the year	236 991 470	236 991 470
Total changes	236 991 470	236 991 470
Balance at 30 June 2015	**1 446 208 804**	**1 446 208 804**

Cash Flow Statement

Figures in Rand	Note(s)	30 June 2015	30 June 2014
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, government and other		54 184 775	23 601 933
Grants		562 577 375	468 303 190
Interest income		3 476 098	3 343 503
Other receipts		-	7 496 882
		620 238 248	502 745 508
Payments			
Employee costs		(109 946 714)	(99 942 600)
Suppliers		(262 303 886)	(192 903 327)
Finance costs		(3 648 355)	(3 510 373)
Other payments		-	(3 124 906)
		(375 898 955)	(299 481 206)
Net cash flows from operating activities	38	**244 339 293**	**203 264 302**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(242 536 959)	(187 689 643)
Purchase of intangible assets	8	(131 588)	(423 443)
Net cash flows from investing activities		**(242 668 547)**	**(188 113 086)**
Cash flows from financing activities			
Repayment of borrowings	10	(3 529 889)	(3 413 902)
Repayment of financial liabilities	11	(1 736 537)	(2 448 827)
Net cash flows from financing activities		**(5 266 426)**	**(5 862 729)**
Net increase/(decrease) in cash and cash equivalents		**(3 595 680)**	**9 288 487**
Cash and cash equivalents at the beginning of the year		29 474 485	20 185 998
Cash and cash equivalents at the end of the year	6	**25 878 805**	**29 474 485**

APPROPRIATION STATEMENT

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Service charges	45 313 158	6 451 355	51 764 513	-		51 764 513	55 400 032		3 635 519	107 %	122 %
Investment revenue	2 600 000	900 000	3 500 000	-		3 500 000	3 476 098		(23 902)	99 %	134 %
Transfers recognised - operational	249 245 568	14 577 975	263 823 543	-		263 823 543	533 194 968		269 371 425	202 %	214 %
Other own revenue	8 679 000	7 549 500	16 228 500	-		16 228 500	9 123 938		(7 104 562)	56 %	105 %
Total revenue (excluding capital transfers and contributions)	**305 837 726**	**29 478 830**	**335 316 556**	**-**		**335 316 556**	**601 195 036**		**265 878 480**	**179 %**	**197 %**
Employee costs	(102 424 332)	(2 276 003)	(104 700 335)	-	-	(104 700 335)	(104 261 737)	-	438 598	100 %	102 %
Remuneration of councillors	(6 655 056)	-	(6 655 056)	-	-	(6 655 056)	(5 689 125)	-	965 931	85 %	85 %
Debt impairment	(10 000 000)	(13 000 000)	(23 000 000)			(23 000 000)	(2 132 917)	-	20 867 083	9 %	21 %
Depreciation and asset impairment	(33 532 720)	(15 000 000)	(48 532 720)			(48 532 720)	(39 730 710)	-	8 802 010	82 %	118 %
Finance charges	(2 638 911)	(561 088)	(3 199 999)	-	-	(3 199 999)	(3 648 355)	-	(448 356)	114 %	138 %
Materials and bulk purchases	(5 000 004)	(3 008 954)	(8 008 958)	-	-	(8 008 958)	(8 941 347)	942 767	(932 389)	112 %	179 %
Transfers and grants	(15 000 000)	(6 400 000)	(21 400 000)	-	-	(21 400 000)	(45 209 664)	23 809 664	(23 809 664)	211 %	301 %
Other expenditure	(118 346 636)	(42 437 349)	(160 783 985)	-	-	(160 783 985)	(185 221 847)	21 858 397	(24 437 862)	115 %	157 %
Total expenditure	**(293 597 659)**	**(82 683 394)**	**(376 281 053)**	**-**	**-**	**(376 281 053)**	**(394 835 702)**	**46 610 828**	**(18 554 649)**	**105 %**	**134 %**
Surplus/(Deficit)	**12 240 067**	**(53 204 564)**	**(40 964 497)**	**-**		**(40 964 497)**	**206 359 334**		**247 323 831**	**(504)%**	**1 686 %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	245 526 432	6 507 025	252 033 457	-		252 033 457	309 457 311		57 423 854	123 %	126 %
Surplus (Deficit) after capital transfers and contributions	**257 766 499**	**(46 697 539)**	**211 068 960**	**-**		**211 068 960**	**515 816 645**		**304 747 685**	**244 %**	**200 %**
Surplus/(Deficit) for the year	**257 766 499**	**(46 697 539)**	**211 068 960**	**-**		**211 068 960**	**515 816 645**		**304 747 685**	**244 %**	**200 %**
Capital expenditure and funds sources											
Total capital expenditure	(12 240 067)	(40 964 497)	(53 204 564)	-		(53 204 564)	(30 045 098)		23 159 466	56 %	245 %

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	275 923 567	14 123 912	290 047 479	-		290 047 479	244 339 293		(45 708 186)	84 %	89 %
Net cash from (used) investing	(258 760 826)	(21 085 000)	(279 845 826)	-		(279 845 826)	(242 668 547)		37 177 279	87 %	94 %
Net cash from (used) financing	(3 355 929)	-	(3 355 929)	-		(3 355 929)	(5 266 426)		(1 910 497)	157 %	157 %
Net increase/(decrease) in cash and cash equivalents	**13 806 812**	**(6 961 088)**	**6 845 724**	**-**		**6 845 724**	**(3 595 680)**		**(10 441 404)**	**(53)%**	**(26)%**
Cash and cash equivalents at the beginning of the year	30 000 000	(525 510)	29 474 490	-		29 474 490	29 474 485		(5)	100 %	98 %
Cash and cash equivalents at year end	**43 806 812**	**(7 486 598)**	**36 320 214**	**-**		**36 320 214**	**25 878 805**		**10 441 409**	**71 %**	**59 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

VARIANCE EXPLANATIONS

1.Service charges - Improved billing and higher than that budgeted consumption of services
2.Interest investment - Immaterial increase.
3.Other revenue - Variances due to inconsistancies between NT budgeting disclosure requirements and GRAP treatment of conditional grants.
4.Goverment grants and subsidies - Additional operational grants Gazzetted during the year.
5.Employee related costs - Immaterial increase.
-6.Still to be provided for .
7.Depreciation and asset impairments - Immaterial increase.
8.Finance costs - Under budgeted for finance costs.
9.Material and bulk purchases - Increase due to bulk water consumption increases.
10.Transfers and grants - Increase due to the transfer to SDA due to an increase in operational requirements.
11.Other expenditures - Increase due to higher demand for infrastructure operations and maintenance.

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The municipality changes an accounting policy only if the change:

a) is required by a Standard of GRAP; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the periodspecific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

1.3 GOING CONCERN ASSUMPTION

The liquidity position of the Municipality though still unsatisfactory reflects improvement over the past three years with the reporting period included at 0.78 (2014) 0.66:1 (2013) ratio.

The Municipality each year, in terms of Division of Revenue Act, receives considerable funding through equitable share for largely operating budget and Municipal Infrastructure Grant for implanting Infrastructure projects for providing water and sanitation infrastructure development so as to provide basic services

As a consequence, the Council believes that the Municipality is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Council have a reasonable expectation that the municipality has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

ACCOUNTING POLICIES

1.4 NEW STANDARDS AND INTERPRETATION

1.4.1 Standards and interpretations issued but not yet effective.

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

ACCOUNTING POLICIES

1.4 NEW STANDARDS AND INTERPRETATION (continued)

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed
.

GRAP 20: Related Party Disclosures

The objective of this Standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable thanthe terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:
· control;
· related party transactions; and
· remuneration of management

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

ACCOUNTING POLICIES

1.4 NEW STANDARDS AND INTERPRETATION (continued)

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

1.5 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Revenue Recognition

Accounting Policy on Revenue from Exchange Transactions and Accounting Policy on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. In particular when services are rendered, and whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management..

Impairment of Financial Assets

Accounting Policy on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies on property, plant and equipment and intangible assests, the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

ACCOUNTING POLICIES

1.5 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

Impairment: Write down of PPE

Significant estimates and judgments are made relating to PPE impairment tests.

Defined Benefit Plan Liabilities

As described in Accounting Policy on employee benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19: Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan.

1.6 INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

ACCOUNTING POLICIES

1.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Office	30 years
Transport Assets:	
• Motor vehicles	7 years
• Trailers and accessories	10 years
• Trucks	10 years
Furniture and office equipment:	
• Office equipment (including fax machines)	7 years
• Office furniture	7 years
• Paintings, sculptures, ornaments (home and office)	10 years

ACCOUNTING POLICIES

1.7 PROPERTY, PLANT AND EQUIPMENT (continued)

Computer Equipment:	
• Computer hardware including operating systems	5 years
• Networks	10 years
Computer software	5 years
Dams/structure	
• Concrete	100 years
• Earth	50 years
River	
• Structure: Weir	50 years
• Borehole Estalishment	30 years
Pump Stations	
• Structure- buildings	55 years
• Structure-Clarifiers	55 years
• Structure-Filters	55 years
• Electrical	20 years
• Mechanical	15 years
• Containers - Diesel	15 years
• Structure – Carports	15 years
Perimeter protection:	
• Palisade - Concrete	25 years
• Palisade – Steel / Razor wire / Weld mesh	15 years
Reservoirs:	
• Structure – Concrete	50 years
• Structure – Galaxy	30 years
• Structure – Steel Tank	30 years
• Structure – Jojo	15 years
• Electrical	20 years
• Mechanical	15 years
Underground: Chambers – Manholes:	
• Chambers	30 years
• Manholes	30 years
Water purification works:	
• Structure	55 years
• Ponds	55 years
• Electrical	20 years
• Mechanical	15 years
Spring protection:	
• Spring	20 years
• Jojo tank	15 years
• Reticulation	40 years
• Standpipes	20 years
Sewerage:	
• Sewerage pump stations:	
• Structure - Buildings	55 years
• Structure - Buildings	55 years
• Structure - Reactors	55 years
• Structure – Drying Beds	55 years
• Structure – Clarifiers chambers	35 years
• Structure – Maturation Ponds	35 years
• Electrical	20 years
• Mechanical	15 years
• Containers - Diesel	15 years
• Structure – Carports, ect.	15 years
• Rising mains	40 years
• Gravity mains	40 years
Other machinery and equipment:	
• Audiovisual equipment	10 years
• Building air conditioning systems	5 years
• Domestic equipment	5 years
• Kitchen appliances	10 years

ACCOUNTING POLICIES

1.7 PROPERTY, PLANT AND EQUIPMENT (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the statement of financial performance.

1.8 INTANGIBLE ASSETS

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

ACCOUNTING POLICIES

1.9 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables..

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Short-term Investment Deposits – Call	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Long-term Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost
Investments in Fixed Deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term Liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost
Short-term loans	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

ACCOUNTING POLICIES

1.9 FINANCIAL INSTRUMENTS (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

An allowance for impairment based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year:

An allowance for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the
year.

Derecognition

Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to nonrecoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

1.10 TAX

VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

ACCOUNTING POLICIES

1.11 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

ACCOUNTING POLICIES

1.13 EMPLOYEE BENEFITS

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The municipality treats its provision for leave pay as an accrual.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

ACCOUNTING POLICIES

1.13 EMPLOYEE BENEFITS (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KSN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Provident, Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The liability is the aggregate of the present value of the defined obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

ACCOUNTING POLICIES

1.13 EMPLOYEE BENEFITS (continued)

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

ACCOUNTING POLICIES

1.14 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the financial statements..

1.15 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service Charges

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

ACCOUNTING POLICIES

1.15 REVENUE FROM EXCHANGE TRANSACTIONS (continued)

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff:

Finance Income

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straightline basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.16 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue

With effect 1 July 2011 property rates are no longer assessed as this only applied to District Municipal Areas.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised..

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures..

1.17 INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method. Investment income comprises of interest received on investments.

ACCOUNTING POLICIES

1.18 BORROWING COSTS

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 COMPARATIVE INFORMATION

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.20 UNAUTHORISED EXPENDITURE

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.24 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

ACCOUNTING POLICIES

1.25 GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

2. INVENTORIES

Opening balance -Water	268 684	264 715
Additions - Water	-	3 969
	268 684	**268 684**

3. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Unauthorised expenditure	5 979	5 979
Debtor - Kokstad deposits	105 753	105 753
MIG - Debtor	101 247 924	35 698 126
DWA - RBIG	1 567 500	9 122 427
Other debtors	167 971	-
Cyclone construction - Farmers market	2 000 000	2 000 000
Umpisi Engineers - Mnqumeni	2 077 278	692 427
SARS - debtors/salaries	181 259	181 259
ACB/debtors	424 247	424 247
Councillors laptops	94 045	94 045
Councillors bursary	19 537	19 537
	107 891 493	**48 343 800**

4. VAT RECEIVABLE

VAT reconcilliation	5 017 871	1 179 125
VAT wesbank finance	28 679	135 666
Year end creditors VAT reclaimable	10 010 040	5 312 415
VAT on consumer accruals	(13 931 168)	(11 945 973)
VAT - provision for bad debts	10 777 118	11 113 114
	11 902 540	**5 794 347**

VAT is payable on a receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

5. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross balances		
Rates	270 941	270 941
Water	68 301 784	58 191 942
Sewerage	31 598 744	27 223 248
Interest	11 856 006	5 551 824
Value added taxation	13 664 332	11 936 165
	125 691 807	**103 174 120**
Less: Allowance for impairment		
Rates	(270 941)	(270 941)
Water	(45 637 016)	(53 695 750)
Sewerage	(25 840 718)	(25 840 718)
Interest	(5 330 362)	(5 330 362)
Value added taxation	(11 113 114)	(11 113 114)
	(88 192 151)	**(96 250 885)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

Net balance		
Water	22 664 768	4 496 192
Sewerage	5 758 026	1 382 530
Interest	6 525 644	221 462
Value added taxation	2 551 218	823 051
	37 499 656	**6 923 235**
Rates		
+121 days	270 941	270 941
Water & Sewerage		
Current (0 -30 days)	8 925 577	6 346 546
31 - 60 days	3 368 979	4 600 290
61 - 90 days	3 146 938	3 591 354
91 - 120+ days	93 408 303	88 364 988
	108 849 797	**102 903 178**
	-	-
Reconciliation of allowance for impairment of receivables from exchange transactions		
Balance at beginning of the year	96 250 885	74 313 993
Contributions to allowance	1 796 921	23 205 844
Debt impairment written off against allowance	(9 855 655)	(3 307 303)
Contributions to vat portion	-	2 038 351
	88 192 151	**96 250 885**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	300	300
Bank balances	80 012	1 634 142
Short-term deposits	25 798 493	27 840 043
	25 878 805	**29 474 485**

Figures in Rand	2015	2014

6. CASH AND CASH EQUIVALENTS (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
FNB Ixopo branch Account Number 62022648169	1 632 837	1 634 143	80 012	1 634 143
FNB Call Account - 62032587331	484 120	7 823 059	485 210	7 823 059
FNB Call Account - 62095523281	12 511 601	200 000	7 131 803	200 000
FNB Call Account - 62138538692	504 201	683 888	1 145	683 888
FNB Call Account - 62398395204	413 283	5 470 646	415 126	5 470 646
FNB Call Account - 62434145331	1 291 231	4 064	3 045	4 064
FNB Call Account - 62434147072	957 065	2 772	3 977	2 772
FNB Call Account - 62434151239	4 385	639 022	6 172 847	639 022
FNB Call Account - 62414264797	9 014	2 040 753	9 022	2 040 753
Investec BANK - Call account - 50006688425	11 525 637	10 975 839	11 576 318	10 975 839
Total	**29 333 374**	**29 474 186**	**25 878 505**	**29 474 186**

7. PROPERTY, PLANT AND EQUIPMENT

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	17 080 598	-	17 080 598	16 080 551	-	16 080 551
Buildings	12 910 652	(5 398 152)	7 512 500	14 002 671	(3 177 517)	10 825 154
Plant and machinery	3 708 187	(1 655 326)	2 052 861	2 457 088	(1 259 105)	1 197 983
Furniture and fixtures	704 710	(250 848)	453 862	4 625 782	(3 881 220)	744 562
Motor vehicles	13 769 473	(7 356 669)	6 412 804	11 957 577	(6 777 500)	5 180 077
Infrastructure	1 159 385 548	(280 226 677)	879 158 871	1 032 040 729	(253 715 964)	778 324 765
Community	5 188 302	(1 377 383)	3 810 919	5 188 302	(1 252 642)	3 935 660
Other assets	6 198 068	(4 189 666)	2 008 402	5 825 574	(3 827 684)	1 997 890
Work in progress	545 164 459	-	545 164 459	451 752 590	-	451 752 590
Finance lease assets	14 471 479	(5 873 611)	8 597 868	13 354 441	(4 076 936)	9 277 505
Total	**1 778 581 476**	**(306 328 332)**	**1 472 253 144**	**1 557 285 305**	**(277 968 568)**	**1 279 316 737**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 30 June 2015

	Opening balance	Additions	Transfer in	Transfers	Depreciation	Impairment loss	Total
Land	16 080 551	-	17 080 597	(16 080 550)	-	-	17 080 59
Buildings	10 825 154	-	10 150 624	(10 825 155)	(2 638 123)	-	7 512 50
Plant and machinery	1 197 983	1 093 702	1 406 527	(1 197 983)	(447 368)	-	2 052 86
Furniture and fixtures	744 562	198 838	346 453	(744 563)	(91 428)	-	453 86
Motor vehicles	5 180 077	2 626 373	5 369 403	(5 546 405)	(1 216 644)	-	6 412 80
Infrastructure	778 324 765	27 657 007	115 669 805	(9 998 403)	(32 087 390)	(406 913)	879 158 87
Community	3 935 660	-	-	-	(124 741)	-	3 810 91
Other assets	1 997 890	854 566	1 767 483	(1 997 891)	(613 646)	-	2 008 40
Work in progress	451 752 590	208 477 679	-	(115 065 810)	-	-	545 164 45
Finance leases - Assets	9 277 505	1 628 794	9 814 210	(9 872 644)	(2 249 997)	-	8 597 86
	1 279 316 737	**242 536 959**	**161 605 102**	**(171 329 404)**	**(39 469 337)**	**(406 913)**	**1 472 253 14**

Reconciliation of property, plant and equipment -30 June 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	5 146 800	10 933 751	-	-	-	-	16 080 55
Buildings	35 506 415	915 187	(25 115 763)	-	(480 685)	-	10 825 15
Plant and machinery	1 568 019	-	-	-	(370 036)	-	1 197 98
Furniture and fixtures	930 626	76 250	-	-	(262 314)	-	744 56
Motor vehicles	1 125 567	5 006 280	-	-	(951 770)	-	5 180 07
Infrastructure	788 727 936	1 597 368	-	24 265 752	(32 594 630)	(3 671 661)	778 324 76
Community	4 017 824	41 395	-	-	(123 559)	-	3 935 66
Other assets	1 346 403	1 188 667	-	-	(537 180)	-	1 997 89
Work in progress	308 087 601	167 930 741	-	(24 265 752)	-	-	451 752 59
Finance lease assets	3 929 394	6 715 464	-	-	(1 367 353)	-	9 277 50
	1 150 386 585	**194 405 103**	**(25 115 763)**	**-**	**(36 687 527)**	**(3 671 661)**	**1 279 316 73**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. INTANGIBLE ASSETS

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 359 623	(881 958)	477 665	2 905 572	(2 072 607)	832 965

Reconciliation of intangible assets - 30 June 2015

	Opening balance	Additions	Transfers received	Transfers	Amortisation	Total
Computer software	832 965	131 588	381 936	(607 450)	(261 374)	477 665

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

8. INTANGIBLE ASSETS (continued)

Reconciliation of intangible assets - 30 June 2014

	Opening balance	Additions	Amortisation	Total
Computer software	772 407	423 443	(362 885)	832 965

9. INVESTMENT IN ENTITY

Unlisted shares 100 Ordinary shares @ R1 per share in Sisonke Economic Development Agency (Pty) Ltd	100	100
Non-current assets Residual interest at cost	100	100

10. BORROWINGS

DBSA The loan bears a nominal fixed interest rate of 10.88 percent per annum compounded bi-annually. The loan is reedemable in twenty equal installments bi-annually in arrears on 31 March and 30 September each year until 30 September 2015.	-	1 663 578
ABSA The loan bears a norminal fixed interest rate of 11.59 percent compounded semi-anually The loan is reedemable in twenty equal installments bi-annually in arrears on 31 May and 30 November each year until 31 May 2021 .	21 949 218	23 815 529
	21 949 218	**25 479 107**
Non-current liabilities At amortised cost	18 683 390	22 063 772
Current liabilities At amortised cost	3 265 828	3 415 335

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. FINANCE LEASE LIABILITY

Minimum lease payments due		
- within one year	3 422 473	3 760 504
- in second to fifth year inclusive	4 403 425	6 137 154
Present value of minimum lease payments	**7 825 898**	**9 897 658**
Present value of minimum lease payments due		
- within one year	2 601 369	2 923 407
- in second to fifth year inclusive	3 471 814	5 129 664
	6 073 183	**8 053 071**
Non-current portion	2 844 776	5 129 664
Current portion	3 471 758	2 923 407
	6 316 534	**8 053 071**

12. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Accounts payable	109 200 579	56 752 955
Provision for leave pay	7 711 122	7 711 122
Debtors direct deposits	1 939 871	-
Retention	29 219 697	24 009 638
Rental accruals	20 480	20 480
Unknown deposit	2 336 524	2 191 077
Other creditors	1 777 465	-
	152 205 738	**90 685 272**

13. TRADE AND OTHER PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Neighbourhood development grant	2 499 235	2 499 235

14. CONSUMER DEPOSITS

Water	1 257 312	1 113 719

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

15. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
CMC Grant	51 685	51 685
Municipal monitoring system grant	300 000	300 000
Disaster management grant	(285 020)	285 020
Support staff grant	24 462	24 462
IDP grant	185 141	185 141
Drought relief grant	9 054	9 054
Sport and recreation programme grant	550 497	550 497
Public transport grant	66 587	66 587
Development bank of SA	406 480	406 480
MAP grant	10 436	10 436
GIS Support grant	141 088	141 087
Learnership grant	782 000	782 000
PMS grant	325 055	325 054
LED grant	518 008	518 008
MWIG - DWA	682 399	3 665 925
Accredited councillors training grant	62 803	62 803
Rural transport service & infrastructure grant	195 134	194 215
Development planning shared services grant	3 019 982	2 935 991
Sihleza maize production project (cogta)	242 413	242 413
Signage grant -Cogta	98 112	98 112
Government experts grant	445 014	445 014
Gijima grant	235 810	235 810
Massification Horseshoe/Fleet	36 307	5 541 463
Electricity demanad management grant	2 439 980	28 703
District growth summit Cogta	31 301	31 301
Rural infrastructure household grant	-	2 066 070
Transformation managers grant	518 040	518 040
Massification Umzimkhulu	-	50 800

See note 20 for reconciliation of grants from other spheres of Government.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS

Non-current liabilities	14 282 954	13 927 928
Current liabilities	359 524	206 505
	14 642 478	**14 134 433**

RETIREMENT BENEFIT LIABILITY

Post-retirement Health Care Benefit Liability

Balance at beginning of year	10 924 126	7 138 468
Contributions to Provision	2 432 408	3 828 354
Benefits paid	(43 416)	(42 696)
Balance at end of year	13 313 118	10 924 126
Less current portion	46 452	43 416
Non-current portion	**13 266 666**	**10 880 710**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the post-employment Medical Aid Benefit Plan are made up as follows:		
In-service Members (Employees)	202	189
Continuation Members (Retirees, widowers and orphans)	1	1
Total Members	203	190
The liability in respect of past service has been estimated as follows:		
In-service Members	12 823 836	10 372 748
Continuation Members	489 282	551 378
Total Liability	13 313 118	10 924 126

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonita'
- Keyhealth
- LA Health
- Samwumed

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount rate	9,31 %	9,50 %
Health Care Cost inflation Rate	8,36 %	8,55 %
Net Effective Discount Rate	0,88 %	0,87 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60
Movements in the present value of the Defined Benefit Obligations were as follows:		
Balance at the beginning of the year:	10 924 126	7 181 164
Current service costs	1 191 186	817 431
Interest cost	1 035 539	693 941
Benefits paid	(43 416)	(42 696)
Actuarial losses	205 683	2 274 286
Present Value of Fund Obligation at the end of the year	**13 313 118**	**10 924 126**
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	1 191 186	817 431
Interest cost	1 035 539	651 245
Actuarial losses	205 683	2 274 286
Total Post-retirement Benefit included in Employee Related cost	**2 432 408**	**3 742 962**

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation;

(ii) A 1% increase and decrease in the discount rate;

(iii) A one-year age reduction in the assumed rates of post-retirement mortality;

(iv) A one-year decrease in the assumed average retirement age; and

(v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS (continued)

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions	-	12,824	0,489	13,313	- %
Health care inflation	1%	14,159	0,492	14,651	10 %
	-1%	11,179	0,484	11,663	-20 %
Post-retirement mortality	- 1 yr	13,253	0,507	13,760	18 %
Average retirement age	- 1 yr	14,428	0,489	14,917	8 %
Contiuation of membership at retirement	-10%	10,617	0,489	11,106	-17 %

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 10% higher than that shown.

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2016

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 459 900	1 237 700	**2 697 600**	- %
Health care inflation	1%	1 622 700	1 362 300	**2 985 000**	0,11 %
	-1%	1 248 700	1 084 100	**2 332 800**	-0,14 %
Post-retirement mortality	- 1 yr	1 507 300	1 279 400	**2 786 700**	0,03 %
Average retirement age	- 1 yr	1 536 400	1 370 400	**2 906 800**	0,08 %
Contiuation of membership at retirement	-10%	1 184 300	1 032 200	**2 216 500**	-0,18 %

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS (continued)

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2015-

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 191 200	1 035 500	**2 226 700**	- %
Health care inflation	1%	1 416 200	1 207 900	**2 624 100**	0,18 %
	-1%	988 700	883 900	**1 872 600**	-0,16 %
Post-retirement mortality	- 1 yr	1 234 800	1 070 300	**2 305 100**	0,04 %
Average retirement age	- 1 yr	1 255 900	1 154 300	**2 410 200**	0,08 %
Contiuation of membership at retirement	-10%	973 000	859 100	**1 832 100**	-0,18 %

Long service awards liability		
Balance at beginning of year	3 210 307	2 528 374
Contributions to Provision	671 134	979 872
Benefits paid	(163 089)	(297 939)
Balance at end of year	3 718 352	3 210 307
Less current portion	313 702	163 089
Non-current portion	**3 404 650**	**3 047 218**

The municipality operate an unfunded defined benefit plan for all itsemployees. Under the plan a Long-service Award is payable after 10 yearsthereafter to employees.The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount rate	8,10 %	8,11 %
Salary Cost inflation Rate	7,13 %	7,21 %
Net Effective Discount Rate	0,90 %	0,84 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:		
Balance at the beginning of the year:	3 210 307	2 528 374
Current service costs	404 775	345 100
Interest cost	253 975	176 343
Benefits paid	(163 089)	(297 939)
Actuarial losses	12 384	458 429
Present Value of Fund Obligation at the end of the year	**3 718 352**	**3 210 307**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS (continued)

The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	404 775	345 100
Interest cost	253 975	176 343
Actuarial losses	12 384	458 429
Total Post-retirement Benefit included in Employee Related cost	**671 134**	**979 872**

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumptions which tend to have the greatest impact on the results are:

(i) The general salary inflation rate assumption;

(ii) The discount rate assumption;

(iii) The average retirement age of employees; and

(iv) Assumed rates of withdrawal of employees from service.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed general salary inflation rate;

(ii) A 1% increase and decrease in the discount rate;

(iii) A two-year decrease and increase in the assumed average retirement age of employees; and

(iv) A 50% decrease in the assumed withdrawal rates from service.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. PROVISIONS (continued)

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	% change
Central Assumptions	-	3,718	- %
General salary inflation	1%	3,976	7 %
	-1%	3,485	-6 %
Average retirement age	+2 yr	3,308	-11 %
	- 2 yr	4,129	11 %
Withdrawal rate	-50%	4,781	29 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2016

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	484 100	288 600	**772 700**	- %
General salary inflation	1%	526 000	309 400	**835 400**	8 %
	-1%	446 600	269 700	**716 300**	-14 %
Average retirement age	+2 yr	437 900	255 400	**693 300**	-3 %
	- 2 yr	528 000	321 800	**849 800**	23 %
Withdrawal rate	-50%	683 100	374 600	**1 057 700**	24 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2015-

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	404 800	254 000	**658 800**	- %
General salary inflation	1%	440 400	272 900	**713 300**	8 %
	-1%	372 900	236 800	**609 700**	-15 %
Average retirement age	+2 yr	364 000	223 300	**587 300**	-4 %
	-2yr	442 100	284 200	**726 300**	24 %
Withdrawal rate	-50%	574 200	331 900	**906 100**	25 %

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

17. SERVICE CHARGES

Sale of water	41 460 456	35 854 800
Sewerage and sanitation charges	13 939 576	13 049 704
	55 400 032	**48 904 504**

18. OTHER INCOME

Clearance certificate	4 035	1 972
Conservancy tanks	230 023	165 190
Endowment fees	124 987	-
Insurance refunds	-	421 817
Onsite disposal - sanitation	46 422	7 033
Salary deductions	295 867	334 826
Sewer connection	49 193	43 344
Sundry Income	-	92 014
Tender documents	412 606	228 400
Vaccum tank - honeysucker	300 311	382 974
Water connection fees	57 999	75 643
Water sales - tankers	156 340	105 729
	1 677 783	**1 858 942**

19. INTEREST RECEIVED

Interest on investments	3 476 098	3 343 503

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES

Operating grants		
Equitable share	228 123 000	216 056 000
EPWP	2 416 226	542 164
Rural household infrastructure grant	5 956 953	-
Intergovenment Relations Grant	-	137 197
MSIG	885 420	812 748
FMG grant	1 197 828	1 135 796
LGSETA grant	26 791	185 041
PMU MIG Grant	-	55 787 429
Umzimkulu cogta	5 242 066	1 696 430
Government Experts Grant	-	279 986
Planning and Shared Service	166 009	232 072
Rural Transportation Service Infrastructure Grant	1 792 176	1 421 228
Corridor Development Hawker Stalls Grant	-	50 378
Signage Grant	-	322 600
Energy Efficient and Demand Management Grant	5 266 423	2 763 155
Vat on Conditional Grants - OPEX	2 047 172	6 762 181
	253 120 064	288 184 405
Capital grants		
RBIG	18 043 983	25 556 324
Disaster Management Grant	6 822 306	2 631 579
EPWP	272 646	2 739 000
MIG	255 879 794	113 219 480
EEDM	-	1 597 368
MWIG	23 240 341	9 175 068
Cogta	-	2 046 478
Massification	-	11 029 370
ACIP - DWA	-	962 321
MSIG	-	42 860
Municipal Water Infrastructure Grant	-	(123 600)
FMG	-	98 218
Vat on Conditional Grants - CAPEX	5 198 241	21 923 586
	309 457 311	190 898 052
	562 577 375	**479 082 457**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

MIG Grants

Current-year receipts	187 028 000	173 618 000
Conditions met - transferred to revenue	(154 631 870)	(189 963 365)
Conditions met - transferred to debtor	-	35 698 126
Debtor 2012/2013	-	(13 239 131)
Adjustment	(32 396 130)	(6 113 630)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Change Management Committee Grant

Balance unspent at beginning of year	51 685	51 685

Conditions still to be met - remain liabilities (see note 15).

Municipal monitoring system grant

Balance unspent at beginning of year	300 000	300 000

Disaster Management

Balance unspent at beginning of year	285 020	285 020
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	(2 904 999)	(3 000 000)
Adjustment	2 334 959	-
	(285 020)	**285 020**

Conditions still to be met - remain liabilities (see note 15).

Support Staff Grant

Balance unspent at beginning of year	24 462	24 462

Conditions still to be met - remain liabilities (see note 15).

IDP Grant

Balance unspent at beginning of year	185 141	185 141

Conditions still to be met - remain liabilities (see note 15).

Drought Relief Grant

Balance unspent at beginning of year	9 054	9 054

Conditions still to be met - remain liabilities (see note 15).

Sports and Recreation Programme Grant

Balance unspent at beginning of year	550 497	550 497

Conditions still to be met - remain liabilities (see note 15).

MSIG GRANT

Current-year receipts	934 000	-
Conditions met - transferred to revenue	(934 000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Public Transport Grant

Balance unspent at beginning of year	66 587	66 587

Conditions still to be met - remain liabilities (see note 15).

Development Bank of SA

Balance unspent at beginning of year	406 480	406 480

Conditions still to be met - remain liabilities (see note 15).

MAP Grant

Balance unspent at beginning of year	10 436	10 436

Conditions still to be met - remain liabilities (see note 15).

GIS Support Grant

Balance unspent at beginning of year	141 087	141 087

Conditions still to be met - remain liabilities (see note 15).

Learnership Grant

Balance unspent at beginning of year	782 000	782 000

Conditions still to be met - remain liabilities (see note 15).

FMG Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

PMS Grant

Balance unspent at beginning of year	325 054	325 054

Conditions still to be met - remain liabilities (see note 15).

LED Grant

Balance unspent at beginning of year	518 008	518 008

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

MWIG - DWA

Balance unspent at beginning of year	3 665 925	-
Current-year receipts	22 800 000	13 700 000
Conditions met - transferred to revenue	(25 783 526)	(10 034 075)
	682 399	**3 665 925**

Conditions still to be met - remain liabilities (see note 15).

Accredited Councillors Training

Balance unspent at beginning of year	62 803	200 000
Conditions met - transferred to revenue	-	(137 197)
	62 803	**62 803**

Conditions still to be met - remain liabilities (see note 15).

Rural Transport Service & Infrastructure Grant

Balance unspent at beginning of year	194 215	415
Current-year receipts	2 044 000	1 814 000
Conditions met - transferred to revenue	(2 043 081)	(1 620 200)
	195 134	**194 215**

Conditions still to be met - remain liabilities (see note 15).

Development Planning Shared Services

Balance unspent at beginning of year	2 935 991	3 168 063
Current-year receipts	250 000	-
Conditions met - transferred to revenue	(166 009)	(232 072)
	3 019 982	**2 935 991**

Conditions still to be met - remain liabilities (see note 15).

LG Seta

Current-year receipts	26 791	185 041
Conditions met - transferred to revenue	(26 791)	(185 041)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Massification - Umzimkhulu

Balance unspent at beginning of year	50 800	7 189 900
Conditions met - transferred to revenue	(3 000 000)	(7 139 100)
	(2 949 200)	**50 800**

Conditions still to be met - remain liabilities (see note 15).

Regional Bulk Infrastructure Grant

Current-year receipts	30 217 303	43 974 704
Conditions met - transferred to revenue	(19 665 294)	(29 133 929)
Conditions met - transferred to debtor	-	9 122 427
Debtor 2012/2013	-	(23 426 355)
Adjustment	(10 552 009)	(536 847)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

SIHLEZA Maize Production Project (COGTA)

Balance unspent at beginning of year	242 413	242 413

Conditions still to be met - remain liabilities (see note 15).

EPWP

Current-year receipts	2 729 000	2 739 000
Conditions met - transferred to revenue	(2 729 000)	(2 739 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Signage Grant -CoGTA

Balance unspent at beginning of year	98 112	420 712
Conditions met - transferred to revenue	-	(322 600)
	98 112	**98 112**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Government Experts

Balance unspent at beginning of year	445 014	725 000
Conditions met - transferred to revenue	-	(279 986)
	445 014	**445 014**

Conditions still to be met - remain liabilities (see note 15).

Gijima Grant

Balance unspent at beginning of year	235 810	235 810

Conditions still to be met - remain liabilities (see note 15).

Massification (COGTA) horseshoe/ fleet

Balance unspent at beginning of year	5 541 463	10 975 845
Conditions met - transferred to revenue	(5 555 956)	(5 434 382)
Adjustment	50 800	-
	36 307	**5 541 463**

Conditions still to be met - remain liabilities (see note 15).

CoGTA - Ubuhlebezwe Grant

Current-year receipts	-	617 059
Conditions met - transferred to revenue	-	(617 059)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Electricity demand management

Balance unspent at beginning of year	28 703	-
Current-year receipts	8 415 000	4 999 700
Conditions met - transferred to revenue	(6 003 723)	(4 970 997)
	2 439 980	**28 703**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. GOVERNMENT GRANTS AND SUBSIDIES (continued)

District Growth Summit CoGTA

Balance unspent at beginning of year	31 301	31 301

Conditions still to be met - remain liabilities (see note 15).

Rural infrastructure household grant

Balance unspent at beginning of year	2 066 070	-
Current-year receipts	4 500 000	4 000 000
Conditions met - transferred to revenue	(6 566 070)	(1 933 930)
	-	**2 066 070**

Conditions still to be met - remain liabilities (see note 15).

Transformation Managers Grant

Balance unspent at beginning of year	518 040	518 040

Conditions still to be met - remain liabilities (see note 15).

ACIP - DWA

Current-year receipts	-	2 309 981
Conditions met - transferred to revenue	-	(1 097 046)
Debtor 2012/2013	-	(1 212 935)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

21. REVENUE

Service charges	55 400 032	48 904 504
Interest on arrear accounts	7 446 155	5 637 940
Other income - (rollup)	1 677 783	1 858 942
Interest received - investment	3 476 098	3 343 503
Government grants & subsidies	562 577 375	479 082 457
	630 577 443	**538 827 346**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	55 400 032	48 904 504
Interest received on arrear accounts	7 446 155	5 637 940
Other income - (rollup)	1 677 783	1 858 942
Interest received - investment	3 476 098	3 343 503
	68 000 068	**59 744 889**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Government grants & subsidies	562 577 375	479 082 457

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. BULK PURCHASES

Water	8 941 347	9 487 077

23. COLLECTION COSTS

Commision on collection	1 870 453	-

24. COMMUNITY PARTICIPATION

Awareness Campaigns	-	2 287
Acknowledgement of Widows & Women	-	133 600
Bursaries - Community	311 185	319 595
Ceremonial Activities	595 312	168 550
Cleaning Campaign	77 100	52 554
Conduct Greenest Municipality	140 200	138 793
IDP Review	671 753	733 501
Mayoral Izimbizo	1 095 778	1 017 959
Mayoral Slots	409 223	334 493
Nyusi Volume	912 000	855 000
Press Conference and Media Breifings	53 090	262 300
Forums	4 273	30 194
Lauch of Youth Council Desk	-	79 500
Harry Gwala Sports Against Crime	-	78 884
Youth Dialogue on 20 years democracy in SA	-	21 000
	4 269 914	**4 228 210**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

25. CONTRACTED SERVICES

Annual Financial Statements	3 215 328	1 898 629
Assessment of Asset Register	-	1 996 165
Budget Preparation	(5 016)	63 516
Employee Wellness Programme	-	29 316
GIS Upgrade	-	240 416
Implementation of HIV/AIDS programmes	-	184 460
Ixopo Precinct Plan	-	284 772
Legal Fees	(3 885)	320 834
Lighting Conductors	-	366 061
PMS/SDBIP Review	399 121	511 732
Office Cleaning	416 223	291 900
Rental of Office Equipment	537 659	855 589
Risk Management and Strategy Audit Assignment	-	100 000
Review WSDP	-	114 905
Security Services	10 032 837	7 874 159
Shared Services	-	190 346
Sport Facilities	-	149 000
Supplier Database Cleansing	-	174 925
Sport Complex Designs	(199 989)	279 985
VAT Consultant	1 898 324	2 159 469
Water Quality Monitoring	1 939 362	1 266 541
Systems and Admin Support	-	3 704 598
Umgeni Farm Detailed Plan	(172 823)	184 307
Gardening Service	93 600	143 306
Review Master Plan of Sanitation Service	-	50 889
Review Master Plan of Water Service	-	65 271
Risk Assesment	-	89 000
Training of Youth In Agriculture	-	18 900
Make Use of DMV Unit	-	36 300
Upgrade And Maintenance	339 712	9 454
To Develop Internal Systems	-	3 984
Rain Water Harvesting	4 382 184	-
Refurbishment of Ubuhlebezwe	3 302 008	-
Refurbishment of Umzimkhulu	7 631 822	-
Refurbishment of Ingwe	2 169 668	-
Refurbishment of Kokstad	2 837 468	-
Refurbishment of Kwasani	758 685	-
Audit committe	462 656	-
	40 034 944	**23 658 729**

26. CONTRIBUTION TO BAD DEBT PROVISION

Contributions to provision	2 132 917	23 205 844

27. DEPRECIATION AND AMORTISATION

Property, plant and equipment	39 062 423	36 687 527
Intangible assets	261 374	362 885
	39 323 797	**37 050 412**

Figures in Rand	2015	2014

28. EMPLOYEE RELATED COSTS

Basic	69 345 928	65 012 061
Health care retirement benefit	-	3 742 962
Housing benefits and allowances	839 833	732 790
Leave pay provision charge	508 045	-
Long-service awards	-	681 933
Overtime payments	11 437 716	8 634 301
Social contribution - SALGBC	26 849	25 330
Social contributions - medical aid	4 610 505	3 980 515
Social contributions - pension fund	8 839 316	8 731 372
Travel, motor car, accommodation, subsistence and other allowances	8 114 004	7 879 674
UIF	539 541	521 662
	104 261 737	**99 942 600**

Remuneration of Municipal Manager

Annual Remuneration	842 814	846 916
Travel, motor car, accommodation, subsistence and other allowances	363 899	673 757
Cellphone Allowance	15 600	15 600
Social contributions - UIF	1 785	1 785
Social contributions - Medical Aid	43 287	40 826
Social Conributions - SALGBC	41	-
Skills	12 168	-
	1 279 594	**1 578 884**

Remuneration of Chief Financial Officer

Annual Remuneration	852 518	778 078
Travel, motor car, accommodation, subsistence and other allowances	300 000	378 168
Cellphone Allowance	15 600	15 600
Social Contributions - UIF	1 785	1 785
Social Contributions - Medical	27 954	25 344
Social Conributions - SALGBC	41	-
Skills	11 673	-
	1 209 571	**1 198 975**

Remuneration of Corporate Services Manager

Annual Remuneration	816 365	746 669
Travel, motor car, accommodation, subsistence and other allowances	251 334	310 872
Cellphone Allowance	15 600	16 500
Social contributions - UIF	1 785	1 785
Social contributions - Medical Aid	21 362	19 350
Social contributions - SALGBC	41	-
Skills	10 715	-
	1 117 202	**1 095 176**

Remuneration of Community Services Manager

Annual Remuneration	716 000	716 000
Travel, motor car, accommodation, subsistence and other allowances	384 000	384 000
Cellphone Allowance	15 600	15 600
Social contributions - UIF	1 785	1 785
Skills	10 676	-
Social contributions - SALGBC	41	-
	1 128 102	**1 117 385**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. EMPLOYEE RELATED COSTS (continued)

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. EMPLOYEE RELATED COSTS (continued)

Remuneration of Engineering Manager - Infrastructure

Annual Remuneration	1 005 651	915 310
Travel, motor car, accommodation, subsistence and other allowances	93 600	103 600
Cellphone Allowance	15 600	15 600
Social contributions - UIF	1 785	1 785
Social contributions - SALGBC	41	-
Skills	10 961	-
	1 127 638	**1 036 295**

Remuneration of Local Economic Development Manager

Annual Remuneration	543 793	609 417
Travel, motor car, accommodation, subsistence and other allowances	137 411	248 660
Cellphone Allowance	12 875	12 892
Social contributions - UIF	1 785	1 785
Social contributions - Medical Aid	-	29 210
Social contributions - Pension Fund	25 088	74 802
Social contributions - SALGBC	81	76
Acting Allowance	44 000	-
	765 033	**976 842**

29. FINANCE COSTS

External borrowings	3 648 355	3 510 373

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. GENERAL EXPENSES

Advertising	1 215 368	895 409
Annual reports	197 368	289 346
Assessment and verification of assets	3 299 302	-
Assets not capitalised	(1 378 328)	-
Auditors remuneration	1 917 734	1 783 650
Bank charges	100 478	82 091
Books and publications	8 117	25 735
Bursaries	742 420	258 435
Chemicals supply	4 177 169	3 016 175
Competitions in LM'S in Maskhandi	-	260 120
Conferences and seminars	1 021 169	1 042 097
Cultural activities	128 473	-
Departmental electricity consumption	320 752	361 402
Desiel for standby generator	24 410	-
Disability awareness	231 058	154 400
Disaster management	600 932	698 381
District name change	-	222 736
Emergency sewer intervention	8 369 750	2 856 321
Emergerncy water intervention	5 314 210	1 687 350
Employee wellness programme	54 635	67 543
Engineering and mentorship skills	78 167	106 606
Evenus municipal financial system	981 026	828 677
Experential learning	306 000	168 936
Facillitation and coodination of education programme	58 817	28 000
Financial assistence and school campaign	242 375	29 961
Fire beaters	59 400	49 660
Fuel and oil	5 943 008	5 279 108
Functions	680 030	900 085
Golden games	172 882	243 901
HIV and AIDS sukumasakhe	526 369	-
Harry gwala district marathon	836 880	-
ICT hub and strategic support	1 106 978	29 401
Implementation of internal audit plan	1 120	89 328
Indigeneous games	-	207 967
Installation of water meters	-	972 354
Insurance	1 562 404	670 881
Legal fees	702 525	17 958
Lighting conductors	268 930	-
MFMA capacity building programme	507 846	628 920
Marketing & branding	426 110	412 693
Mayoral cup	-	395 582
Media tour	398 100	-
Memebership fees	36 659	26 637
Other expenses	1 391 112	1 144 426
Penalties	-	340 928
Planned projects as per priority	188 129	1 626 212
Postage	169 679	151 512
Printing and stationery	725 912	727 321
Priotised project implementation	457 071	-
Protective clothing	697 761	615 154
Publication of newsletter	964 746	672 362
Rain water haversting	-	2 414 361
Rental offices	1 015 573	775 056
Review of risk management strategy	164 480	-
Rural horse riding games	484 994	425 400
SCM capacity building	129 961	-
Salga fees	987 167	783 079
Salga games	-	5 097 908
Sisonke spatial development framework	29 484	2 107

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
30. GENERAL EXPENSES (continued)		
Skills development levy	955 664	885 245
Sports development	3 280 505	-
Staff replacement and reallocation costs	34 314	46 827
Staff welfare	224 486	131 769
System and adminstration support	4 508 748	-
Techinical support	196 879	-
Telephone and fax	4 242 926	4 004 764
Tracker	217 877	114 699
Training	1 308 460	2 768 556
Travel, accommodation and subsistence allowances	2 429 091	955 955
Umngeni farm detailed plan	47 235	-
Vehicle rental	299 794	1 253 266
Vehicles licences	93 533	171 337
Videography	87 198	9 950
Waste water risk abatement plan	207 880	-
Water conservation health and hygiene	14 750	347 716
Water expenses	14 822 170	14 481 899
Website management	422 940	44 100
Women's day celebration	173 070	233 780
Workshops and sessions	-	5 006
Youth development empowerment plan	204 792	175 200
	82 419 024	**65 193 741**
31. GRANTS AND SUBSIDIES PAID		
Grants and subsidies paid		
Harry Gwala development agency	22 426 825	14 808 198
32. IMPAIRMENT OF ASSETS		
Impairments		
Property, plant and equipment	406 913	3 671 661
33. LOSS ON DISPOSAL OF ASSETS		
Property, plant and equipment	10 737 380	25 115 763

Figures in Rand	2015	2014

34. OPERATING GRANTS EXPENDITURE

Other subsidies		
Councillors accredited training grant	5 242 066	-
Ubuhlebezwe - Cogta	-	2 763 155
Municipal infrastructure grant	-	52 291 426
Financial management grant	475 668	584 404
Government experts grant	-	279 986
LG seta	26 791	185 041
Municipal system improvement grant	885 420	847 140
Rural transport infrastructure grant	1 792 176	1 421 228
Signage grant - Cogta	-	322 600
Rural housing infrastructure grant	-	1 833 627
EEDMP grant	5 266 423	542 164
Computer licences financial systems grant	166 009	-
Ingwe Household Sanitation Project	8 127 260	-
FMG - Caseware and E Venus Training	117 930	-
PMU grant	8 771	-
Eradication of Sanitation Backlog	17 592 875	-
EEDMP - Energy Grant	251 500	-
FMG - Training of Bid Committe	1 227	-
	39 954 116	**61 070 771**

35. PROVISION FOR LEAVE PAY RESERVE

Contribution to leave pay	824 076	1 817 972

36. REMUNERATION OF COUNCILLORS

Councillors	5 095 585	4 721 427
Councillors' cellphone allowance	267 806	256 818
Councillors' meeting allowance	8 000	8 802
Councillors' travelling allowance	317 734	262 063
	5 689 125	**5 249 110**

37. REPAIRS AND MAINTENANCE

Fire Extinguishers	43 729	36 703
Machanical and electrical	7 119 378	3 878 848
Maintenance of Ingwe Schemes	1 537 925	2 828 988
Maintenance of Kokstad Schemes	2 617 648	5 891 459
Maintenance of Kwasani Schemes	456 903	643 113
Maintenance of Ubuhlebezwe Schemes	1 643 627	4 033 883
Maintenance of Umzimkhulu Schemes	5 143 275	5 576 045
Mantain water and infrastructure in SDM	-	209 400
Office Building	2 857 315	232 860
Sever Room Maintenance	244 514	84 381
Vehicles	182 486	58 654
	21 846 800	**23 474 334**

Figures in Rand	2015	2014

38. CASH GENERATED FROM OPERATIONS

Surplus	240 997 288	137 378 864
Adjustments for:		
Depreciation and impairment	39 323 797	37 050 412
Loss on sale of assets	10 737 380	25 115 763
Impairment deficit	406 913	3 671 661
Debt impairment	2 132 917	21 936 892
Movements in provisions	508 045	5 211 128
Other non-cash items	(4 386 473)	-
Changes in working capital:		
Inventories	-	(3 968)
Receivables from exchange transactions	(32 709 338)	(23 121 812)
Other receivables from non-exchange transactions	(59 547 693)	(2 180 759)
Trade and other payables from exchange transactions	61 520 460	(140 661)
VAT	(6 108 193)	9 022 178
Unspent conditional grants and receipts	(8 679 403)	(10 779 268)
Consumer deposits	143 593	103 872
	244 339 293	**203 264 302**

39. COMMITMENTS

Authorised capital expenditure

Approved and contracted		
• Infrastructure assets	269 781 660	187 601 954
• Corporate Services	3 554 313	6 153 194
	273 335 973	**193 755 148**
Authorised but not yet contracted		
• Infrastructure assets	272 189 872	124 954 702
• Corporate Services	2 050 000	3 259 394
• Social Economic Development	800 000	2 525 000
• Water Services	3 500 000	4 000 000
	278 539 872	**134 739 096**
Total capital commitments		
Already contracted for but not provided for	273 335 973	193 755 148
Not yet contracted for and authorised by accounting officers	278 539 872	134 739 096
	551 875 845	**328 494 244**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	232 320

Operating lease payments represent rentals payable by themunicipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

40. CONTINGENCIES

CONTINGENT LIABILITY		
Eskom		
Eskom Guarantee	-	200 000
The nature of claims as defendant are as follows:		
Advertising costs	-	32 134
Damages to private vehicle	-	163 089
Personnel costs	-	100 000
Personnel costs	-	259 684
B Helston Investments	968 000	3 135
Merensky Forestry Land	-	2 508
Bhungane Built Environment	2 000 000	2 700 000
Mahlaselondwe Trading	-	3 381 656
Zululand Steam	164 141	-
Fleetmatics vehicle management	196 563	-
Mdlebeni trading	1 254 000	-
Internal Contingent Liability		
Matatiele Local Municipality	-	2 941 249
J Leslie Smith & Company Inc	-	113 197
	4 582 704	**9 896 652**

- Council is awaiting the outcome of the above civil claims and employees disciplinary action.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. RISK MANAGEMENT

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

Balances exposed to the interest rate risk:		
Call deposits	25 798 493	27 840 042
Bank balances and cash	1 859 859	1 634 143
DBSA loan	612 625	1 663 578
ABSA loan	22 556 284	23 815 529
	50 827 261	54 953 292

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in the market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, without taking account of the value of any collateral obtained:

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Cash and Cash Equivalents	25 798 493	29 474 485
Trade and other receivables	95 532 366	55 267 035
	121 330 859	84 741 520

42. UNAUTHORISED EXPENDITURE

Opening balance	164 918 134	159 163 652
Add current year expenditure	386 814 372	164 918 134
Approved by council or condoned	(164 918 134)	(159 163 652)
	386 814 372	**164 918 134**

43. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	26 050	479 787
Add current year expenditure	194 619	26 050
Less: Amounts condoned/ written off by council	(20 050)	(479 787)
	200 619	**26 050**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

44. IRREGULAR EXPENDITURE

Opening balance	187 116 940	257 344 020
Add: Irregular Expenditure - current year	143 498 277	187 116 940
Less: Amounts written off by council	(187 116 940)	(257 344 020)
	143 498 277	**187 116 940**

45. RELATED PARTIES

Controlled Entities

The Harry Gwala District Municpality controls the following reporting entity:
Sisonke Economic Development Agency:
Harry Gwala District Municipality has 100% shareholding in Sisonke Economic Development Agency.
Sisonke Economic Development Agency is a registered (PTY) Ltd company in terms of the Company Act 71 of 2008.

Related Party Transactions

During the reporting period Harry Gwala District Municipality has transferred R22 426 825 to Sisonke Economic Development Agency.
In the previous financial 2013/2014 Harry Gwala District Municipality transferred R14 808 198 to Sisonke Economic Development Agency

Key Management Personnel

The key management personnel of Sisonke Economic Development Agency are:
The Chief Executive Officer
The Chief Financial Officer

46. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

Current year fees	904 340	35 068
Amount paid - current year	-	(35 068)
	904 340	**-**

Material losses Incurred

water losses	-	1 294 345

The water losses of 26% is calculated on the total consumption of 1 228 602kl purchasesd at an average price of R4.13 per kl. Total of 313 401kl was the water stock losses for 2013/2014.

Audit fees

Current year fees	1 814 290	1 783 650
Amount paid - current year	(1 814 290)	(1 783 650)
	-	**-**

PAYE and UIF

Current year subscription / fee	16 346 664	16 006 829
Amount paid - current year	(16 346 664)	(16 006 829)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

46. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

Pension and Medical Aid Deductions

Current year subscription / fee	13 449 821	12 541 753
Amount paid - current year	(13 449 821)	(12 541 753)
	-	-

VAT

VAT receivable	11 902 540	5 794 347

VAT output payables and VAT input receivables are shown in note 4.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MM Nondabula	-	3 862	3 862
CM Ngcobo	-	945	945
	-	**4 807**	**4 807**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Municipal Council.

Section 36 deviations transferred to Irregular Expenditure.

Incident

Supply Chain Management Deviations	-	1 297 063